



YoY Chg 12-Mo. Forecast

15.4%
Vacancy Rate



-222K
YTD Net Absorption, SF



\$18.53
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022

YoY Chg 12-Mo. Forecast

691.9K
Louisville Employment



3.3%
Louisville Unemployment Rate



3.7%
U.S. Unemployment Rate



Source: BLS

ECONOMIC OVERVIEW

As 2022 drew to a close, the U.S. economy faced a number of challenging issues including, but not limited to persistent inflation, rising interest rates, the crisis at the southern border, the war in Ukraine, continued supply chain disruptions, and geo-political concerns regarding China, Russia and Iran. While real gross domestic product (GDP) increased at an annual rate of 3.2% in the third quarter, the year-end estimate of GDP growth at 3.9% may prove overly ambitious in the face of a struggling housing market and a multitude of corporate layoffs impacting the U.S. unemployment rate, which rose from 3.5% to 3.7% during the fourth quarter.

U.S. consumer spending remained steady as annual inflation rose at its slowest pace in 13 months. However, there was a noticeable shift in demand from goods to services as spending in private services-producing industries increased 4.9%, while in private goods-producing industries, spending decreased 1.3%. Interest rate hikes appear to be dampening inflationary pressures as wage growth has slowed and the U.S. unemployment rate has risen. While CEOs, investors and consumers remain concerned about a recession in 2023, many economists believe the more likely scenario will be a 'slowcession' which would avoid a full economic decline, suggesting that additional rate hikes from the Federal Reserve may be minimal.

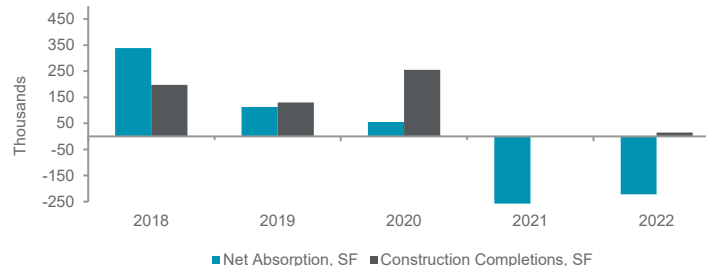
Closer to home, the unemployment rate in Louisville increased from 3.1% during the third quarter of 2022 to 3.3% during the fourth quarter. Louisville metro employment levels totaled roughly 661,054 people in November. That is roughly 11,942 more than we saw this time last year.

CBD

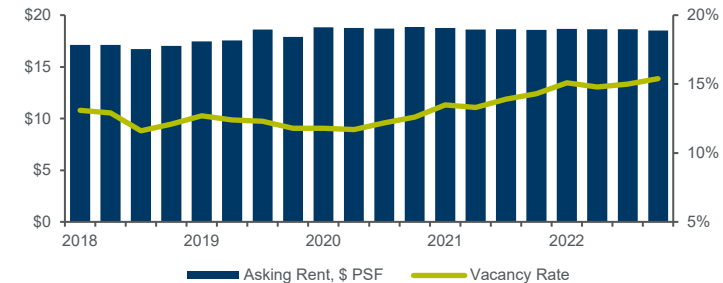
Leasing activity in the Central Business District (CBD) during the fourth quarter totaled 66,955 square feet (sf) bringing the year-to-date (YTD) total to 178,025 sf. The majority of new leasing activity came from existing CBD tenants with expiring leases relocating to different properties and taking full advantage of outsized leasing incentive packages that landlords continue to offer. With few new inbound tenants competing for space, landlords are competing aggressively with all incentive tools at their disposal, including reduced lease rates, larger than normal tenant improvement allowances, deferred rent, and free or reduced-cost parking.

Overall net absorption in the CBD for the fourth quarter was negative -63,428 sf. Class A overall net absorption in the CBD totaled -3,891 sf while Class B totaled -59,537 sf. The vacancy rate in the CBD decreased 10 basis points (bps) from 18.5% at the end of the third quarter to 18.4% during the fourth quarter of 2022. The Class A vacancy rate decreased from 25.9% to 25.5%. The overall vacancy rate in the CBD has decreased 320 bps from this time last year, which largely resulted from inventory adjustments.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT





Suburban

Suburban leasing activity finished the fourth quarter at 106,314 sf bringing the YTD total to 640,770 sf. The Hurstbourne/Eastpoint submarket recorded the most leasing activity this quarter totaling 62,916 sf. This accounted for 59% of all suburban leasing activity for the quarter. The Planview/Middletown submarket recorded the second largest amount of leasing activity totaling 29,386 sf. Suburban Class A leasing activity totaled 54,468 sf while Class B totaled 51,846 sf.

Overall net absorption for the Suburban office market ended the fourth quarter at -18,175 sf, ending two consecutive quarters of positive absorption. Overall net absorption for the Class A Suburban market was 3,288 sf while the Class B suburban market experienced -21,463 sf of absorption. The majority of the Class A absorption occurred in the St. Matthews submarket.

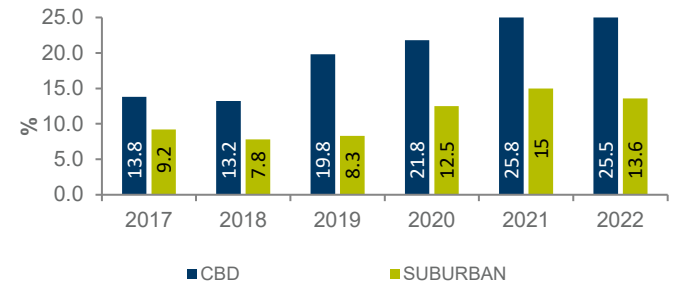
The overall Suburban vacancy rate remained unchanged at 13.2%. Compared to this time last year, the overall Suburban vacancy rate has decreased 90 bps. The Class A vacancy rate decreased 40 bps to 13.6% while the Class B vacancy rate decreased 60 bps to 11.9%. Overall average asking rents in the suburbs decreased from \$19.48 per square foot (psf) to \$19.30 psf. Class A Suburban average asking rents decreased from \$21.42 psf to \$21.26 psf while Class B Suburban average asking rents increased from \$16.74 psf to \$17.37 psf.

The suburban market is a relative picture of health as overall leasing activity for the year has returned to pre-pandemic levels. Much of the leasing activity is being driven by a pronounced 'flight-to-quality', with existing tenants abandoning older, lower-priced Class B properties for newer, higher-priced Class A facilities that are more heavily amenitized and feature more efficient floorplate designs that can better accommodate an increasingly mobile workforce. With very few office construction deliveries coming to market in the near future, Class A landlords should stand to benefit from a continued tightening in market supply. Class B landlords, by contrast, are faced with a much more difficult landscape in which they will be expected to simultaneously invest heavily in improving their physical assets while also heavily incentivizing tenants with lower rents and larger tenant improvement allowances to stay competitive.

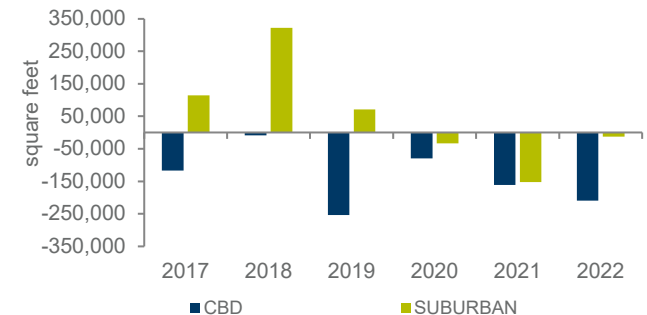
Outlook

- The office market still hasn't recovered from the pandemic and remote work remains a strong trend, even as a rising number of companies become more focused on getting employees back to the office.
- A flight-to-quality trend experienced amid the pandemic is likely to persist, and older buildings will continue to fall out of favor with tenants. For buildings that can't be converted into new uses, those landlords will face turmoil in the future as loans mature.
- Despite increased vacancies and sublease activity, rental rates continue to rise among Class A properties.
- Look for a 'slowcession' rather than a recession in 2023 as economic growth slows to a near standstill while avoiding a full economic downturn.

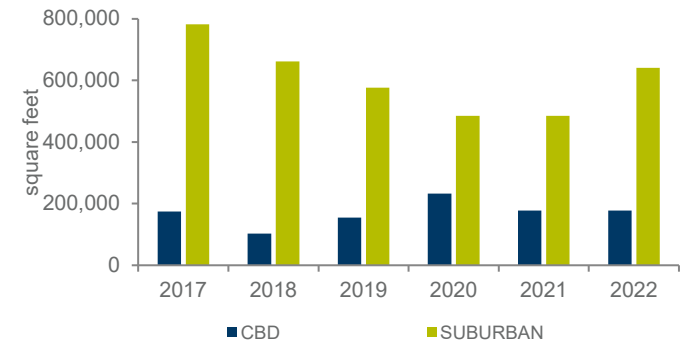
Class A Overall Vacancy Rates – CBD & Suburban



Class A YTD Overall Net Absorption – CBD & Suburban



YTD Leasing Activity – CBD & Suburban





MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
CBD	8,954,080	42,543	1,603,062	18.4%	-63,428	-209,396	178,025	0	\$17.83	\$19.27
SUBURBAN	11,812,988	79,949	1,476,697	13.2%	-18,175	-12,917	640,770	121,203	\$19.30	\$21.26
Old Louisville	399,940	0	46,569	11.6%	0	3,787	0	0	N/A	N/A
Hurstbourne / Eastpoint	5,026,318	53,951	656,593	14.1%	-122	2,305	337,629	121,203	\$21.25	\$22.08
Plainview / Middletown	1,447,721	15,149	313,547	22.7%	1,984	3,091	124,265	0	\$17.70	N/A
Southeast	1,244,740	10,849	114,526	10.1%	7,836	1,896	27,861	0	\$15.77	\$19.75
Northeast	896,861	0	10,440	1.2%	1,060	42,952	29,125	0	\$19.05	\$19.05
St. Matthews	1,355,474	0	178,149	13.1%	-16,925	-47,796	40,018	0	\$19.37	\$20.58
South Central	1,441,934	0	156,873	10.9%	-12,008	-19,152	81,872	0	\$17.19	\$17.50
LOUISVILLE TOTALS	20,767,068	122,492	3,079,759	15.4%	-81,603	-222,313	818,795	121,203	\$18.53	\$20.20

*Rental rates reflect full service asking

**Does not include renewals

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)*	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	10,020,970	38,294	1,781,188	18.2%	-603	-65,226	507,414	73,203	\$20.20	\$20.20
Class B	10,031,213	84,198	1,169,084	12.5%	-81,000	-148,727	307,799	48,000	\$16.73	\$16.57
Class C	714,885	0	129,487	18.1%	0	-8,360	3,582	0	\$13.70	\$13.70

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	SF	TYPE
101 South Fifth Street	CBD	Mountjoy Chilton Medley	34,156	Lease
435 North Whittington Parkway	Hurstbourne / Eastpoint	Assured Partners	27,559	Lease
101 South Fifth Street	CBD	Greater Louisville Inc.	16,996	Lease
10168 Linn Station Road	Plainview / Middletown	Riverlink	16,111	Lease

KEY SALE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
9901 Linn Station Road	Plainview / Middletown	Castlelake / Matrix Holdings	94,143	\$16,800,000 / \$70.43
10101 Linn Station Road	Plainview / Middletown	Ascent Properties LLC / Sazerac Company	90,940	\$14,000,000 / \$153.95

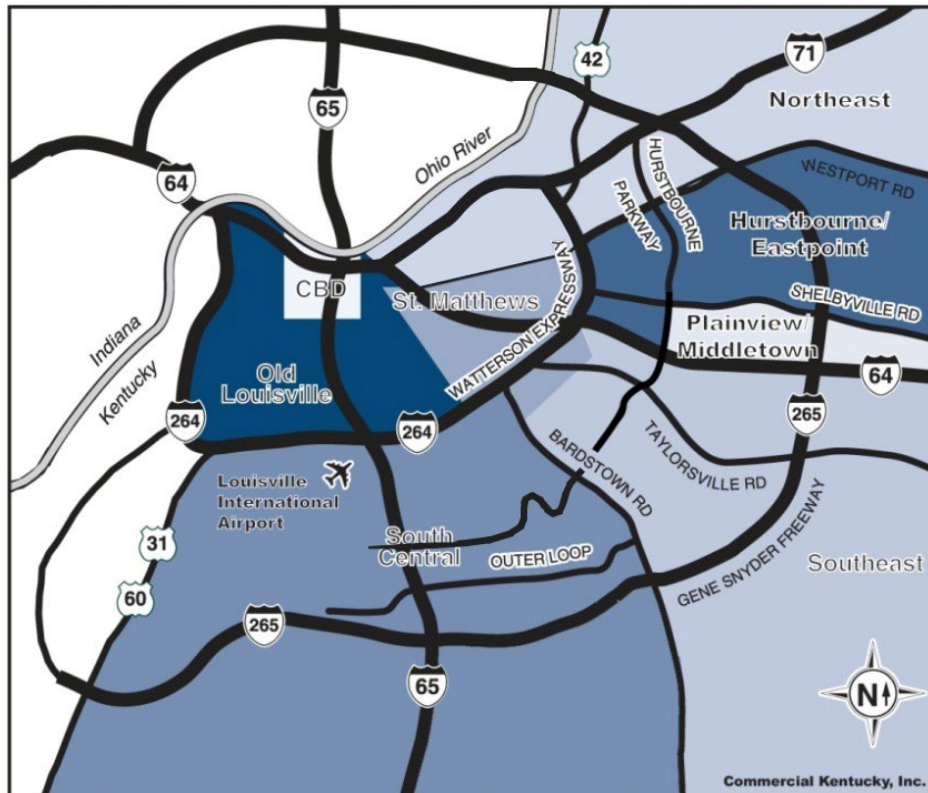


OFFICE SUBMARKETS

- Central Business District (CBD):** Extends from River Rd. to York St. and from Hancock St. to Ninth St.
- Old Louisville:** Includes the downtown area immediately surrounding the CBD, as well as Old Louisville.
- Hurstbourne/Eastpoint:** Largest suburban market includes areas east of I-264, north of Shelbyville Rd. and south of Westport Rd.
- Plainview/Middletown:** Contains the areas south of Shelbyville Rd., north of I-64 and east of Hurstbourne Pkwy.
- Southeast:** Includes the area along S. Hurstbourne Parkway, extending south from I-64 to Bardstown Rd.
- Northeast:** Embodies an area south of the Ohio River, north of Westport Rd. and east of I-264.
- St. Matthews:** Largely within I-264 and east of Bardstown Rd.
- South Central:** Encompasses an area southwest of Bardstown Rd. to Shively, which includes Louisville International Airport.

KRISTINE MCFARLAND

Research Analyst
 Tel: +1 502 589 5150
kmcfarland@commercialkentucky.com



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